

CITY OF SPRINGFIELD, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2006

CITY OF SPRINGFIELD, MASSACHUSETTS

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JUNE 30, 2006

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Independent Auditors' Report

To the Honorable Mayor and Finance Control Board
City of Springfield, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the City of Springfield, Massachusetts, as of and for the fiscal year ended June 30, 2006 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Springfield, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include the primary government of the City of Springfield, Massachusetts, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity along with the Springfield Contributory Retirement System blended component unit. The financial statements do not include financial data for the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc, three of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported as discretely presented component units.

In our opinion, except for the effects of the items described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the City of Springfield, Massachusetts, as of June 30, 2006 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 3 to the accompanying financial statements, on July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, there is an established Finance Control Board (FCB) vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$52 million trust fund subject to the control of the Commonwealth's Secretary of Administration and Finance ("the Secretary") from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary. Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, the Commonwealth's Secretary of Administration and Finance may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would not only have all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the Federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity.

A handwritten signature in cursive script that reads "Bowers + Sullivan". The signature is written in black ink and is positioned above the date.

November 17, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Springfield, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Springfield for the fiscal year ended June 30, 2006. This is the fifth year our financial statements have been prepared under the Government Accounting Standards Board Statement 34 – Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments. We encourage readers to consider the information presented in this report.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the City's financial statements have significant departures from GAAP the independent auditors' may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the City's bond rating and our ability to borrow money at favorable interest rates. The financial statements of the primary government have received an unqualified auditor's opinion. However since the City's financial statements do not include, as discretely presented component units, the activities of the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. the auditor's cannot issue an unqualified opinion on the entity-wide statements since these entities are not presented.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Springfield's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, health and welfare, culture and recreation, Finance Control Board expenses, claims and judgments, and interest. The City has not presented any business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The City's general fund is considered the only major fund. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

Proprietary funds. The City maintains one type of propriety funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The City uses its internal service fund to account for health insurance activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Finance Control Board

The City has been experiencing serious financial stress over the last several years and by the end of FY2004 faced a financial crisis. It was determined that the City needed the Commonwealth to provide short and long term financial resources in order to avoid a financial collapse. The additional funding provided the much needed time for the City to work with the Commonwealth to turn around the financial condition.

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, a Finance Control Board (FCB) was established and vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$52 million trust fund subject to the control of the Commonwealth's Secretary of Administration and Finance ("the Secretary") from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary.

Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, the Commonwealth's Secretary of Administration and Finance may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would not only have all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the Federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity

Financial Condition

The current focus on resolving the deteriorating financial condition is with the City's General Fund and Health Insurance Internal Service Fund. The Special Revenue Funds are self-supporting through charges for services, grants and contributions and therefore do not create deficits in their operations. The Capital Projects Fund is supported by grants and long-term bond issues but can create deficits due to the uncertainty of the final costs incurred during construction.

In order for long-term stability to be obtained the City needed to solve its short-term term budget problems for FY2005 and FY2006. The original budget projections for FY2005 and FY2006 estimated there would be a \$37 million and \$8 million deficit, respectively, that would be funded by loans from the state trust fund. During FY2005 and FY2006 the FCB initiated a series of cost cutting measures, revenue enhancement processes, and established budgetary reserves and conservative revenue projections to minimize the structural deficit in the General Fund.

As a result of these measures the General Fund actually only had to draw down \$21 million in FY2005 and \$1,625,000 in FY2006. The loan amount is also increased in FY2005 by \$871,757 and in FY2006 by \$2,017,262 for FCB expenses paid by the Commonwealth. At June 30, 2006 the loan balance is \$25,514,019. Excluding the State Loans, the City had a budgetary surplus of \$29 million and \$14 million in 2006 and 2005, respectively, where revenues exceeded expenditures and transfers out. The actual results far exceeded the initial expectations but the City believes the structural deficit still exists since some of the surplus was the one-time collection of past due amounts. The result of these favorable results has increased the General Fund total budgetary fund balance to \$94 million at June 30, 2006. In addition, part of the surplus was generated by a wage freeze implemented by the City in FY2004. The Teachers Union filed suit against the wage freeze and in December 2005 the courts ruled in favor of the Teachers Union. During FY2006 the FCB and the City have negotiated settlements with virtually all of its unions for approximately a \$9.6 million liability that has been paid during FY2007. The City has reserved a portion of its \$94 million fund balance at June 30, 2006.

In addition to the interest free loan discussed above, the FCB and the Secretary have authorized working capital advances from the trust fund during fiscal year 2006 to assist the City with its cash flow requirements. At June 30, 2006 all of the working capital advances have been repaid.

At June 30, 2006 the Health Insurance Internal Service Fund has a positive fund balance of \$2.1 million compared with \$2.9 million in the prior year. The fund experienced an (\$858,000) deficit during FY2006, partially related to the elimination and transfer of the stores inventory in the amount of approximately \$305,000, compared to an \$8.6 million surplus in FY2005. The current year deficit represents approximately 1.5% of total operating expenses of the fund. Employee benefits decreased from \$76.8 million in FY2005 to \$57.6 million in FY2006. The cost savings can be attributed to effective cost management of the new health care administrator and less employees. Subsequent to June 30, 2006 the City joined the Commonwealth's Group Insurance Commission program in order to gain access to more favorable health insurance rates and further the initiative to reduce costs while still providing quality health coverage to its employees and retirees.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of approximately \$116.9 million, an increase of approximately \$37 million from the prior year. The increase is due to bond premiums received in the amount of \$3.5 million in the nonmajor funds, a \$24 million revenue surplus in the General Fund and an appropriation General Fund surplus of \$6.2 million.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was approximately \$38.3 million, while total fund balance was approximately \$83.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents approximately 8.1% of total general fund expenditures, while total fund balance represents approximately 17.8% of that same amount.

As stated earlier the positive results of the General Fund in FY2006 was due to the FCB taking immediate steps to change how the City operated. For FY2006 the City only budgeted 97.5% of the expected property tax billings instead of the normal 100% to allow for the nonpayment of taxes. These steps along with the expenditure reductions resulted in the surplus.

General Fund Budgetary Highlights

The City of Springfield adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Actual revenues were greater than budgeted amounts by \$21.4 million or a 4.8% surplus, while actual expenditures, including carryovers, were also less than budgeted amounts by \$6.2 million, or a 1.3% surplus. The City carried over \$30.9 million in appropriations to FY07.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Springfield's governmental assets exceeded liabilities for governmental activities by approximately \$406 million. During FY2006 the City recorded its infrastructure assets acquired prior to FY02, as allowed by GASB Statement 34, which increased the beginning net assets by \$199.8 million. This amount is not reflected in the FY05 balances in the table below. Key components of the City's activities are presented below.

Governmental Activities

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets.....	\$ 177,123,260	\$ 151,875,485
Noncurrent assets (excluding capital).....	124,735,643	135,409,430
Capital assets, non depreciable.....	26,581,317	29,961,755
Capital assets, net of accumulated depreciation.....	<u>510,323,770</u>	<u>324,174,786</u>
Total assets.....	<u>838,763,990</u>	<u>641,421,456</u>
Liabilities:		
Current liabilities (excluding debt).....	63,186,396	54,486,376
Noncurrent liabilities (excluding debt).....	23,405,752	35,214,465
Current debt.....	20,005,648	20,442,779
Noncurrent debt.....	<u>325,732,687</u>	<u>337,322,532</u>
Total liabilities.....	<u>432,330,483</u>	<u>447,466,152</u>
Net Assets:		
Capital assets net of related debt.....	337,293,007	152,135,812
Restricted.....	20,736,805	25,282,204
Unrestricted.....	<u>48,403,695</u>	<u>16,537,288</u>
Total net assets.....	<u>\$ 406,433,507</u>	<u>\$ 193,955,304</u>

Governmental net assets of \$337 million (83%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, and machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets of \$21 million (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$48 million (12%) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services.....	\$ 39,589,568	\$ 41,635,264
Operating grants and contributions.....	345,756,999	339,811,117
Capital grants and contributions.....	4,537,749	4,543,703
General Revenues:		
Real estate and personal property taxes.....	137,981,258	137,984,170
Motor vehicle and other excise taxes.....	9,863,385	9,465,439
Penalties and interest on taxes.....	3,537,692	3,892,106
Grants and contributions not restricted to specific programs.....	37,288,365	35,367,054
Unrestricted investment income.....	3,845,110	1,263,014
Other revenues.....	6,413,562	12,008,623
Total revenues.....	<u>588,813,688</u>	<u>585,970,490</u>
Expenses:		
General government.....	37,313,464	36,388,335
Public safety.....	85,728,406	81,568,471
Education.....	362,864,927	353,161,885
Public works.....	39,852,304	35,625,891
Health and welfare.....	14,629,017	14,070,853
Culture and recreation.....	17,056,712	14,854,349
Finance Control Board expenses.....	2,017,262	871,757
Claims and judgements.....	532,192	-
Interest.....	16,128,784	14,413,659
Total expenses.....	<u>576,123,068</u>	<u>550,955,200</u>
Change in net assets.....	\$ <u>12,690,620</u>	\$ <u>35,015,290</u>

Other financial notes related to governmental activities:

- Charges for services represent 7% of governmental activities resources. The City can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the City are included in this category.
- Operating and capital grants and contributions accounted for 59% of the governmental activities resources. Most of these resources apply to education operations. These resources offset costs within the school department in addition to their General Fund operating budget.
- Property taxes are a significant revenue source for the City's governmental activities. They comprised 23% of current resources.
- Other taxes and other revenues comprised a total of 11% of the governmental activity's resources. Other revenues declined by approximately \$5.6 million as compared to the prior year relating mainly to the collection of liens associated with the sale of property during FY2005.
- Education is by far the largest governmental activity of the City. Approximately \$363 million in expenses were recorded in FY06. After accounting for \$320 in program revenues an additional \$43 million in taxes and other revenues were needed to cover its Fiscal 2006 operating expenses. Approximately \$31 million of a pension contribution made by the state on-behalf of Springfield teachers have been recorded as an expense and grant revenue.
- Public safety and public works are the third and fourth largest activities of the City. Approximately \$70 million and \$25 million, respectively, of taxes and other revenues were needed to cover their Fiscal 2006 operating expenses.

Capital Asset and Debt Administration

The City has recently finished the construction/renovation of a number of their schools. The City has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs. During fiscal year 2006, approximately \$18.9 million of such assistance was received. Approximately \$181 million is expected to be received in future fiscal years. Of this amount, \$59 million represents reimbursement of long-term interest costs, and \$122 million represents reimbursement of approved construction costs. The MSBA has presented its initial results of the final allowable costs to the City for review. Based on the initial review the City is appealing some of the disallowed costs and the final results may increase the amounts due from the State significantly. The City will recognize any increase in the fiscal year the MSBA finalizes the cost reports.

Under the current financial position the City did not make significant capital expenses during FY2006. Capital assets net of accumulated depreciation was \$537 million at year end, depreciation was \$28 million and \$10.3 million in additions were recorded in FY2006.

During FY2006, the City recorded infrastructure capital assets having a net book value of approximately \$194 million. This was the final step of the GASB 34 implementation which began in FY2002 and the City is now in full compliance with this statement.

Outstanding long-term debt of the general government, as of June 30, 2006, totaled approximately \$332 million, unamortized premiums totaled \$8.8 million, and guaranteed debt of \$3.9 is to be reimbursed by the Springfield Water and Sewer Commission. No bond anticipation notes were outstanding at June 30, 2006.

During the year the City advance refunded \$100 million of general obligation bonds which resulted in a decrease in aggregate debt service payments of \$7.7 million and an economic gain of \$5.7 million.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Springfield's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer or the City Auditor at, 36 Court Street, Springfield, MA 01103.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 93,470,864
Investments.....	45,830,599
Receivables, net of allowance for uncollectibles:	
Real estate and personal property taxes.....	9,170,942
Tax liens.....	3,571,000
Motor vehicle excise taxes.....	2,513,442
Departmental and other.....	625,484
Special assessments.....	170,057
Intergovernmental.....	20,901,610
Loans.....	375,000
Working capital deposit.....	100,000
Due from Springfield Water and Sewer Commission.....	394,262
NONCURRENT:	
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	113,187,693
Loans.....	7,997,779
Due from Springfield Water and Sewer Commission.....	3,550,171
Capital assets, non depreciable.....	26,581,317
Capital assets, net of accumulated depreciation.....	510,323,770
TOTAL ASSETS.....	838,763,990
LIABILITIES	
CURRENT:	
Warrants payable.....	9,310,533
Accrued unemployment liability.....	2,255,027
Accrued payroll.....	1,738,985
Employee contributions paid in advance.....	1,517,565
Health claims payable.....	7,403,994
Tax refunds payable.....	14,785,424
Accrued interest.....	6,649,955
Other liabilities.....	1,273,692
Capital lease obligations.....	571,000
Landfill closure.....	750,000
Compensated absences.....	5,991,221
Workers' compensation.....	1,901,000
Court judgments.....	9,609,000
Bonds and notes payable.....	19,434,648
NONCURRENT:	
Capital lease obligations.....	917,928
Compensated absences.....	14,040,204
Workers' compensation.....	4,433,995
Landfill closure.....	4,931,553
Bonds and notes payable.....	324,814,759
TOTAL LIABILITIES.....	432,330,483
NET ASSETS	
Invested in capital assets, net of related debt.....	337,293,007
Restricted for:	
Chapter 656 Reserve.....	4,869,332
Loans.....	8,372,779
Permanent funds.....	1,519,975
Other purposes.....	5,974,719
Unrestricted.....	48,403,695
TOTAL NET ASSETS.....	\$ 406,433,507

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 37,313,464	\$ 2,922,723	\$ 14,784,462	\$ -	\$ (19,606,279)
Public safety.....	85,728,406	10,312,098	5,678,402	-	(69,737,906)
Education.....	362,864,927	6,011,926	313,639,426	250,000	(42,963,575)
Public works.....	39,852,304	10,311,545	-	4,287,749	(25,253,010)
Health and welfare.....	14,629,017	50,324	9,660,059	-	(4,918,634)
Culture and recreation.....	17,056,712	2,705,743	1,994,650	-	(12,356,319)
Finance Control Board.....	2,017,262	-	-	-	(2,017,262)
Claims and judgments.....	532,192	-	-	-	(532,192)
Interest.....	16,128,784	7,275,209	-	-	(8,853,575)
Total Primary Government.....	\$ 576,123,068	\$ 39,589,568	\$ 345,756,999	\$ 4,537,749	\$ (186,238,752)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2006

	<u>Primary Government</u>	
	Governmental	
	<u>Activities</u>	
Changes in net assets:		
Net (expense) revenue from previous page.....	\$	<u>(186,238,752)</u>
<i>General revenues:</i>		
Real estate and personal property taxes, net of tax refunds payable.....		132,539,064
Tax liens.....		5,442,194
Motor vehicle and other excise taxes.....		8,928,670
Hotel/motel tax.....		934,715
Penalties and interest on taxes.....		3,537,692
Payments in lieu of taxes.....		6,363,640
Grants and contributions not restricted to specific programs.....		37,288,365
Unrestricted investment income.....		3,845,110
Miscellaneous.....		<u>49,922</u>
Total general revenues.....		<u>198,929,372</u>
Change in net assets.....		12,690,620
<i>Net Assets:</i>		
Beginning of year (as restated for infrastructure capital assets).....		<u>393,742,887</u>
End of year.....	\$	<u><u>406,433,507</u></u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 60,572,729	\$ 23,384,282	\$ 83,957,011
Investments.....	37,800,010	8,030,589	45,830,599
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	9,170,942	-	9,170,942
Tax liens	3,571,000	-	3,571,000
Motor vehicle excise taxes.....	2,513,442	-	2,513,442
Departmental and other.....	-	549,338	549,338
Special assessments.....	170,057	-	170,057
Intergovernmental.....	123,345,064	10,744,239	134,089,303
Loans.....	-	8,372,779	8,372,779
Working capital deposit.....	100,000	-	100,000
TOTAL ASSETS.....	\$ 237,243,244	\$ 51,081,227	\$ 288,324,471
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 3,168,518	\$ 5,946,137	\$ 9,114,655
Accrued unemployment liability.....	134,027	-	134,027
Accrued payroll.....	1,455,115	283,870	1,738,985
Tax refunds payable.....	14,785,424	-	14,785,424
Other liabilities.....	1,271,056	2,636	1,273,692
Deferred revenues.....	132,613,253	11,799,017	144,412,270
TOTAL LIABILITIES.....	153,427,393	18,031,660	171,459,053
FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	30,904,387	-	30,904,387
Chapter 656 Reserve.....	4,869,332	-	4,869,332
Unreserved:			
Designated for subsequent year's expenditures.....	9,726,500	-	9,726,500
Undesignated, reported in:			
General fund.....	38,315,632	-	38,315,632
Special revenue funds.....	-	18,752,274	18,752,274
Capital projects funds.....	-	12,777,318	12,777,318
Permanent funds.....	-	1,519,975	1,519,975
TOTAL FUND BALANCES.....	83,815,851	33,049,567	116,865,418
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 237,243,244	\$ 51,081,227	\$ 288,324,471

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2006

Total governmental fund balances.....		\$ 116,865,418
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		536,905,087
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		144,412,270
Internal service funds are used by management to account for health insurance and parts inventory.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		2,068,562
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(6,649,955)
The City's component unit is responsible for the payment of certain bonds and the City has recorded an amount due from them equal to the outstanding bonds.....		3,944,433
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable.....	(344,249,407)	
Capital lease obligations.....	(1,488,928)	
Landfill closure liability.....	(5,681,553)	
Accrued unemployment liability.....	(2,121,000)	
Accrued medical insurance surcharge.....	(1,596,000)	
Workers compensation liability.....	(6,334,995)	
Court judgment liability.....	(9,609,000)	
Compensated absences.....	<u>(20,031,425)</u>	
Net effect of reporting long-term liabilities.....		<u>(391,112,308)</u>
Net assets of governmental activities.....		<u>\$ 406,433,507</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 130,987,539	\$ -	\$ 130,987,539
Tax liens.....	7,194,890	-	7,194,890
Motor vehicle and other excise taxes.....	9,211,096	-	9,211,096
Hotel/motel tax.....	934,715	-	934,715
Charges for services.....	495,521	12,936,050	13,431,571
Penalties and interest on taxes.....	3,537,692	-	3,537,692
Payments in lieu of taxes.....	6,363,640	-	6,363,640
Licenses and permits.....	2,953,760	-	2,953,760
Fines and forfeitures.....	2,187,751	-	2,187,751
Intergovernmental.....	317,286,516	88,967,069	406,253,585
Departmental and other.....	14,083,962	-	14,083,962
Contributions.....	-	2,991,764	2,991,764
Investment income.....	3,745,453	58,657	3,804,110
Miscellaneous.....	69,200	-	69,200
TOTAL REVENUES.....	499,051,735	104,953,540	604,005,275
EXPENDITURES:			
Current:			
General government.....	22,264,855	12,758,189	35,023,044
Public safety.....	50,156,654	7,259,076	57,415,730
Education.....	292,468,591	59,732,406	352,200,997
Public works.....	16,835,923	12,369,372	29,205,295
Health and welfare.....	2,357,675	11,095,547	13,453,222
Culture and recreation.....	9,976,615	3,163,275	13,139,890
Finance Control Board Expenses.....	2,017,262	-	2,017,262
Pension benefits.....	17,479,734	-	17,479,734
Employee fringe benefits.....	1,068,473	-	1,068,473
Employee health benefits.....	18,074,765	-	18,074,765
Claims and judgments.....	532,192	-	532,192
State, county and district assessments.....	2,837,845	-	2,837,845
Debt service:			
Principal.....	18,952,085	-	18,952,085
Interest.....	13,790,706	-	13,790,706
TOTAL EXPENDITURES.....	468,813,375	106,377,865	575,191,240
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	30,238,360	(1,424,325)	28,814,035
OTHER FINANCING SOURCES (USES):			
Issuance of refunding bonds.....	98,274,000	-	98,274,000
State loan issuance.....	3,642,262	-	3,642,262
Premium from issuance of bonds.....	-	3,463,068	3,463,068
Premium from issuance of refunding bonds.....	10,195,602	-	10,195,602
Payments to refunded bond escrow agent.....	(107,143,336)	-	(107,143,336)
Transfers in.....	-	3,476,574	3,476,574
Transfers out.....	(2,342,084)	(1,134,490)	(3,476,574)
TOTAL OTHER FINANCING SOURCES (USES).....	2,626,444	5,805,152	8,431,596
NET CHANGE IN FUND BALANCES.....	32,864,804	4,380,827	37,245,631
FUND BALANCES AT BEGINNING OF YEAR.....	50,951,047	28,668,740	79,619,787
FUND BALANCES AT END OF YEAR.....	\$ 83,815,851	\$ 33,049,567	\$ 116,865,418

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds.....	\$	37,245,631
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	10,318,765	
Depreciation expense.....	<u>(27,804,466)</u>	
Net effect of reporting capital assets.....		(17,485,701)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

(13,479,546)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from state loan issuance.....	(3,642,262)	
Premium from issuance of bonds.....	(3,463,068)	
Capital lease principal payments.....	850,008	
Amortization of bond premiums.....	572,149	
Debt service principal payments.....	<u>18,952,085</u>	
Net effect of reporting long-term debt.....		13,268,912

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(446,775)	
Net change in workers compensation accrual.....	1,545,405	
Net change in accrued interest on long-term debt.....	(2,835,939)	
Net change in unemployment liability accrual.....	(2,131,586)	
Net change in landfill accrual.....	1,073,426	
Net change in health claims payable accrual.....	(1,596,000)	
Court judgments.....	<u>(1,609,000)</u>	
Net effect of recording long-term liabilities.....		(6,000,469)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>(858,207)</u>
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Change in net assets of governmental activities.....	\$	<u>12,690,620</u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

		Governmental Activities - Internal Service Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$	9,513,853
Receivables, net of allowance for uncollectibles:		
Departmental and other.....		76,146
TOTAL ASSETS.....		9,589,999
LIABILITIES		
CURRENT:		
Warrants payable.....		195,878
Employee contributions paid in advance.....		1,517,565
Health claims payable.....		5,807,994
Total current liabilities.....		7,521,437
NET ASSETS		
Unrestricted.....		2,068,562
TOTAL NET ASSETS.....	\$	2,068,562

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

		Governmental Activities - Internal Service Funds
<u>OPERATING REVENUES:</u>		
Employee contributions	\$	10,779,476
Employer contributions		46,119,362
		<u>56,898,838</u>
<u>OPERATING EXPENSES:</u>		
Materials.....		196,670
Employee benefits		57,601,375
		<u>57,798,045</u>
TOTAL OPERATING REVENUES		<u>56,898,838</u>
TOTAL OPERATING EXPENSES		<u>57,798,045</u>
OPERATING INCOME.....		<u>(899,207)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Investment income.....		41,000
		<u>41,000</u>
CHANGE IN NET ASSETS.....		(858,207)
NET ASSETS AT BEGINNING OF YEAR.....		<u>2,926,769</u>
NET ASSETS AT END OF YEAR.....	\$	<u><u>2,068,562</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

	<u>Governmental Activities - Internal Service Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 12,297,041
Receipts from interfund services provided.....	46,119,362
Payments for interfund services used.....	<u>(59,952,489)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>(1,536,086)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investment income.....	<u>41,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,495,086)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>11,008,939</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 9,513,853</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income.....	\$ <u>(899,207)</u>
Adjustments to reconcile operating income to net cash from operating activities:	
Changes in assets and liabilities:	
Departmental and other.....	(76,146)
Employee contributions paid in advance.....	1,517,565
Inventory.....	305,284
Warrants payable.....	52,629
Health claims payable.....	<u>(2,436,211)</u>
Total adjustments.....	<u>(636,879)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ (1,536,086)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Agency Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 2,662,145	\$ 2,281,537
Investments.....	253,617,090	-
Interest and dividends receivable.....	1,092	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	12,767,177	-
TOTAL ASSETS.....	269,047,504	2,281,537
LIABILITIES		
Warrants payable.....	60,805	2,281,537
NET ASSETS		
Held in trust for pension plan participants.....	\$ 268,986,699	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (year ended December 31, 2005)
ADDITIONS:	
Contributions:	
Employer.....	\$ 23,808,738
Plan members.....	9,908,679
Total contributions.....	33,717,417
Net investment income:	
Net change in fair value of investments.....	15,676,454
Interest.....	6,231,038
Dividends.....	1,101,594
Total investment income.....	23,009,086
Less: investment expense.....	(1,627,040)
Net investment income.....	21,382,046
Intergovernmental.....	3,145,234
Transfers from other systems.....	551,401
TOTAL ADDITIONS.....	58,796,098
DEDUCTIONS:	
Administration.....	482,616
Transfers to other systems.....	1,690,227
Retirement benefits and refunds.....	50,819,745
TOTAL DEDUCTIONS.....	52,992,588
CHANGE IN NET ASSETS.....	5,803,510
NET ASSETS AT BEGINNING OF YEAR.....	263,183,189
NET ASSETS AT END OF YEAR.....	\$ 268,986,699

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Springfield, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), except as indicated in Note 2. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation governed by its Massachusetts Plan A charter, by which voters elect a "strong" Mayor with broad powers to supervise City departments and to appoint their managers. A nine-member City Council, elected at large, serves as a representative legislature.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units, except as described below and in Note 2.

Blended Component Units – Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City. The following component unit is blended within the primary government:

In the Fiduciary Funds:

- (1) The Springfield Contributory Retirement System (the System) was established to provide retirement benefits to City employees and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's membership, one member appointed by the System's four other Board members, and one member appointed by the City's Mayor. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Management has determined that the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. meet the GASB criteria that consider these organizations as component units of the City. The audited financial statements for these entities are not available for inclusion in these financial statements as discretely presented component units which is a departure from GAAP.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 70 Tapley Street, Springfield, MA 01104.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The non-major governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following proprietary fund is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the self-insured employee health program.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed on delinquent properties and are recorded as receivables in the fiscal year they are processed. Real estate receivables that are secured via the tax lien process are considered more likely to be collected. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Other

Departmental, special assessment and loan receivables are recorded as receivables in the fiscal year the revenue is earned. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories of the governmental funds are recorded as expenditures at the time of purchase. Such inventories are not material in total to the basic financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, including land, construction in process, buildings and improvements, infrastructure, and vehicles and equipment, are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and in the proprietary fund financial statements, where applicable. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction with expected useful lives of greater than one year.

Capital assets (excluding land and construction in process) are depreciated on a straight-line basis. The estimated useful lives of capital assets being depreciated are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Infrastructure.....	40-100
Buildings.....	40
Building improvements.....	20
Vehicles.....	5-10
Office equipment.....	5-10
Computer equipment.....	5-10

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"MGL Chapter 656; An Act relative to reorganization of the financial management structure of the City of Springfield" requires the City to raise an amount equal to 1% of the prior year's gross amounts to be raised. The City may reduce this amount by any funds remaining in the reserve from the prior year.

"Loans" represents the City's Community Development outstanding loans receivable balances.

"Permanent funds" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"MGL Chapter 656; An Act relative to reorganization of the financial management structure of the City of Springfield" requires the City to raise an amount equal to 1% of the prior year's gross amounts to be raised. The City may reduce this amount by any funds remaining in the reserve from the prior year.

Fund balances have been "designated" for the following:

"Designated for subsequent year's expenditures" represents the amount of current unreserved fund balance voted to be used to balance the subsequent year's budget.

L. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

O. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 75% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2006, the City's share of this expense/expenditure totaled approximately \$11,971,000. There were 2,494 participants eligible to receive benefits at June 30, 2006.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

Q. Total Column

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

In fiscal year 2006 it was determined that the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. met the required GASB 39 criteria of component units of the City; however because audited financial statements for these entities are not available for inclusion as of the date of this report, these entities have not been included with the City's basic financial statements. These entities should be included in order to conform to generally accepted accounting principles.

NOTE 3 – FINANCE CONTROL BOARD

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, there is an established Finance Control Board (FCB) vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$52 million trust fund subject to the control of the Commonwealth's Secretary of Administration and Finance ("the Secretary") from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary. For fiscal years 2006 and 2005, the City relied upon loans from the trust fund to offset its budgetary deficits. At June 30, 2006 the City has drawn down \$23 million from the trust fund to be used as a funding source to balance its budget through fiscal year 2006. In addition to the interest free loan discussed above, the FCB and the Secretary have authorized working capital advances from the trust fund during fiscal year 2006 to assist the City with its cash flow requirements. At June 30, 2006 all of the advances have been repaid. In addition, administrative costs totaling approximately \$2,889,000 of the FCB have been funded by the Commonwealth and are due to be repaid along with the long-term loans from the trust.

Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, the Commonwealth's Secretary of Administration and Finance may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would not only have all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the Federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity.

NOTE 4 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and cash equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$14,755,942 and the bank balance totaled \$21,075,337. Of the bank balance, \$201,596 was covered by Federal Depository Insurance, \$934,466 was covered by Depositors Insurance Fund, and \$19,939,275 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2005, the carrying amount of deposits for the Retirement System totaled \$2,662,145 which was covered by Federal Depository Insurance.

Investments

As of June 30, 2006, the City had the following investments and maturities:

Investment Type	Fair Value	Maturity	
		Under 1 Year	Rating
<u>Debt Securities</u>			
Corporate Bonds.....	\$ 20,325,000	\$ 20,325,000	AAA
Repurchase Agreements.....	25,576,911	25,576,911	AAA
Municipal Bonds.....	25,300,000	25,300,000	AAA
Total Debt Securities.....	71,201,911	\$ 71,201,911	
<u>Other Investments</u>			
Equity Securities.....	205,599		
Money Market Mutual Funds.....	55,376,073		
MMDT.....	43,475		
Total Investments.....	\$ 126,827,058		

As of December 31, 2005, the Retirement System had the following investments and maturities:

Investment Type	Fair Value
<u>Other Investments</u>	
Alternative Investments.....	6,387,472
Pension Reserve Investment Trust.....	247,229,618
Total Investments.....	\$ 253,617,090

Custodial Credit Risk – Investments

For investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City has custodial credit risk exposure equal to \$71,201,911 in debt securities and \$205,599 in equity securities because the related securities are uninsured, unregistered and held by the counterparty.

The City does not have an investment policy for custodial credit risk.

Of the Retirement System’s total investments of \$253,617,090 there was custodial credit risk exposure of \$6,387,472 in alternative investments because the related securities are uninsured, unregistered and held by the counterparty.

Investment Rate Risk

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has not adopted a formal policy related to Credit Risk.

Concentration Credit Risk

The City places no limit on the amount it may invest in any one issuer.

NOTE 5 – RECEIVABLES

At June 30, 2006, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 14,218,883	\$ (5,047,941)	\$ 9,170,942
Tax liens.....	14,283,999	(10,712,999)	3,571,000
Motor vehicle and other excise taxes.....	7,536,481	(5,023,039)	2,513,442
Departmental and other	549,338	-	549,338
Special assessments.....	170,057	-	170,057
Intergovernmental.....	134,089,303	-	134,089,303
Loans.....	28,803,982	(20,431,203)	8,372,779
Total.....	<u>\$ 199,652,043</u>	<u>\$ (41,215,182)</u>	<u>\$ 158,436,861</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 4,121,518	\$ -	\$ 4,121,518
Tax Liens.....	3,571,000	-	3,571,000
Motor vehicle excise.....	2,513,442	-	2,513,442
Departmental and other.....	-	549,338	549,338
Special assessments.....	170,057	-	170,057
Intergovernmental.....	122,237,236	2,876,900	125,114,136
Loans.....	-	8,372,779	8,372,779
Total.....	<u>\$ 132,613,253</u>	<u>\$ 11,799,017</u>	<u>\$ 144,412,270</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 25,824,320	\$ -	\$ -	\$ 25,824,320
Construction in progress.....	4,137,435	705,547	(4,085,985)	756,997
Total capital assets not being depreciated.....	<u>29,961,755</u>	<u>705,547</u>	<u>(4,085,985)</u>	<u>26,581,317</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	34,385,449	1,222,695	-	35,608,144
Buildings and improvements.....	341,648,894	6,639,387	-	348,288,281
Machinery and equipment.....	70,820,351	3,246,607	-	74,066,958
Infrastructure.....	416,001,680	3,057,178	(1,442,065)	417,616,793
Total capital assets being depreciated.....	<u>862,856,374</u>	<u>14,165,867</u>	<u>(1,442,065)</u>	<u>875,580,176</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(6,889,016)	(1,232,726)	-	(8,121,742)
Buildings and improvements.....	(71,379,615)	(10,431,363)	-	(81,810,978)
Machinery and equipment.....	(44,411,277)	(7,374,206)	-	(51,785,483)
Infrastructure.....	(216,214,097)	(8,766,171)	1,442,065	(223,538,203)
Total accumulated depreciation.....	<u>(338,894,005)</u>	<u>(27,804,466)</u>	<u>1,442,065</u>	<u>(365,256,406)</u>
Total capital assets being depreciated, net.....	<u>523,962,369</u>	<u>(13,638,599)</u>	<u>-</u>	<u>510,323,770</u>
Total governmental activities capital assets, net.....	<u>\$ 553,924,124</u>	<u>\$ (12,933,052)</u>	<u>\$ (4,085,985)</u>	<u>\$ 536,905,087</u>

During FY2006, the City recorded infrastructure capital assets having a net book value of approximately \$200 million at the beginning of the year and \$194 million at the end of the year.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government.....	\$ 590,308
Public safety.....	1,957,860
Education.....	13,628,027
Public works.....	9,646,483
Human services.....	4,071
Culture and recreation.....	<u>1,977,717</u>
Total depreciation expense - governmental activities.....	<u>\$ 27,804,466</u>

NOTE 7 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2006, are summarized as follows:

<u>Operating Transfers Out</u>	<u>Operating Transfers In</u>
	Nonmajor Governmental Funds
General Fund.....	\$ 2,342,084 (1)
Nonmajor Governmental Funds.....	<u>1,134,490 (2)</u>
Total.....	<u>\$ 3,476,574</u>

(1) Represents budgeted transfers from the general fund to capital project funds to provide funding for various projects.

(2) Represents budgeted transfers from receipts reserved in the special revenue fund to capital projects in the amount of \$389,088, and various transfers between special revenue funds in the amount of \$745,402.

NOTE 8 – LEASES

Capital Leases

The City has entered into lease agreements to finance the acquisition of machinery and equipment for public safety, public works and general governmental activities. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The following identifies the assets acquired through capital lease agreements:

<u>Asset description:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 6,922,149
Less: accumulated depreciation.....	<u>(5,088,231)</u>
Total.....	<u>\$ 1,833,918</u>

Future minimum lease payments under capitalized leases consist of the following at June 30:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2007.....	\$ 634,684
2008.....	526,154
2009.....	<u>494,545</u>
Total minimum lease payments.....	1,655,383
Less: amounts representing interest.....	<u>(166,455)</u>
Present value of minimum lease payments.....	<u>\$ 1,488,928</u>

Operating Leases

The City leases office equipment, vehicles, and various facilities utilized primarily by the school system, the department of public works, and the animal control center under noncancelable operating leases that expire on various dates through fiscal year 2028. The cost of the leases for the fiscal year ended June 30, 2006, totaled approximately \$2,875,000, and is reported as educational, public works, and general governmental expenditures in the general fund and special revenue funds.

The future minimum lease payments are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2007.....	\$ 2,099,572
2008.....	1,220,010
2009.....	566,080
2010.....	486,430
2011.....	450,953
2012 to 2016.....	2,071,000
2017 to 2021.....	2,381,650
2022 to 2026.....	2,738,896
2027 to 2028.....	<u>1,155,864</u>
	<u>\$ 13,170,455</u>

NOTE 9 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

Details related to the short-term debt activity for the fiscal year ended June 30, 2006, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2005	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2006
BAN	Public buildings.....	3.50%	07/08/05	\$ 46,000	\$ -	\$ 46,000	\$ -
BAN	Public buildings.....	3.50%	07/22/05	1,051,000	-	1,051,000	-
RAN	Cash flow financing.....	0.00%	03/27/06	-	17,500,000	17,500,000	-
				<u>\$ 1,097,000</u>	<u>\$ 17,500,000</u>	<u>\$ 18,597,000</u>	<u>\$ -</u>

NOTE 10 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2006, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
Inside Debt Limit					
State Qualified Bonds dated August 15, 1996.....	6.25 - 6.375	\$ 780,516	\$ -	\$ 474,025	\$ 306,491
State Qualified Bonds dated October 1, 1997.....	4.35 - 6.375	2,685,000	-	1,475,000	1,210,000
State Qualified Bonds dated November 15, 1998.....	3.55 - 5.0	1,540,000	-	1,280,000	260,000
State Qualified Bonds dated December 1, 1999.....	4.5 - 6.25	3,925,000	-	3,122,007	802,993
State Qualified Bonds dated August 1, 2001.....	3.5 - 5.5	55,540,000	-	2,125,000	53,415,000
July 25, 2002 Qualified Zone Academy Bonds.....	1.28	6,000,000	-	500,000	5,500,000
State Qualified Refunding Bonds dated February 1, 2003.....	2.0 - 5.0	4,690,513	-	654,164	4,036,349
State Qualified New Money Bonds dated July 7, 2005.....	3.0 - 5.25	40,869,018	-	-	40,869,018
State Qualified Refunding Bonds dated July 7, 2005.....	3.0 - 5.25	-	8,062,500	-	8,062,500
Total Inside Debt Limit.....		<u>116,030,047</u>	<u>8,062,500</u>	<u>9,630,196</u>	<u>114,462,351</u>
Outside Debt Limit					
EPA July 26, 1986.....	0.00	67,268	-	67,268	-
State Qualified Bonds dated August 15, 1996.....	6.25 - 6.375	22,699,484	-	11,741,090	10,958,394
State Qualified Bonds dated October 1, 1997.....	4.35 - 6.375	29,450,000	-	25,000,000	4,450,000
State Qualified Bonds dated November 15, 1998.....	3.55 - 5.0	45,765,000	-	37,945,000	7,820,000
State Qualified Bonds dated December 1, 1999.....	4.5 - 6.25	37,385,000	-	29,705,000	7,680,000
State Qualified New Money Bonds dated February 1, 2003....	2.0 - 5.25	64,527,794	-	2,471,970	62,055,824
State Qualified New Money Bonds dated July 7, 2005.....	3.0 - 5.25	8,366,982	-	-	8,366,982
State Qualified Refunding Bonds dated July 7, 2005.....	3.0 - 5.25	-	90,211,500	-	90,211,500
Total Outside Debt Limit.....		<u>208,261,528</u>	<u>90,211,500</u>	<u>106,930,328</u>	<u>191,542,700</u>
State Loan.....	0.00	21,871,757	3,642,262	-	25,514,019
Hospital Note.....	3.00	1,870,000	-	1,870,000	-
Total face value of bonds and notes.....		<u>348,033,332</u>	<u>101,916,262</u>	<u>118,430,524</u>	<u>331,519,070</u>
Unamortized Premiums on bonds.....		<u>4,308,985</u>	<u>5,049,068</u>	<u>572,149</u>	<u>8,785,904</u>
Total long-term debt and unamortized premiums.....		<u>\$ 352,342,317</u>	<u>\$ 106,965,330</u>	<u>\$ 119,002,673</u>	<u>\$ 340,304,974</u>

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 18,336,770	\$ 14,863,280	\$ 33,200,050
2008.....	22,797,138	14,049,476	36,846,614
2009.....	22,508,966	13,235,138	35,744,104
2010.....	23,155,452	12,374,744	35,530,196
2011.....	23,997,890	11,435,645	35,433,535
2012.....	24,839,499	10,433,099	35,272,598
2013.....	23,973,356	9,404,650	33,378,006
2014.....	20,085,000	8,367,333	28,452,333
2015.....	21,085,001	7,299,174	28,384,175
2016.....	20,834,999	6,206,665	27,041,664
2017.....	18,310,000	5,198,673	23,508,673
2018.....	18,695,000	4,273,569	22,968,569
2019.....	19,605,000	3,303,154	22,908,154
2020.....	15,950,000	2,409,992	18,359,992
2021.....	12,705,000	1,690,664	14,395,664
2022.....	13,330,000	1,036,274	14,366,274
2023.....	9,009,999	474,349	9,484,348
2024.....	2,300,000	56,312	2,356,312
Total.....	\$ <u>331,519,070</u>	\$ <u>126,112,191</u>	\$ <u>457,631,261</u>

Guaranteed Loans

The City issued debt through general obligation bonds and the Massachusetts Water Pollution Abatement Trust (MWPAT) on behalf of the Water and Sewer Commission, a separate reporting entity. At the time of its creation, the Water and Sewer Commission assumed this debt and is responsible for reimbursing the City for the debt service payments. The City has recorded a corresponding asset of due from the Springfield Water and Sewer Commission to offset the liability. As of June 30, 2006, the following amounts are included in long-term debt of the City:

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2006</u>
August 1, 2001 MWPAT 91-59.....	1.0 - 2.75	\$ 938,972	\$ -	\$ 72,135	\$ 866,837
August 1, 2001 Phase I MWPAT 94-24.....	1.0 - 2.75	2,350,329	-	180,560	2,169,769
State Qualified New Money Bonds dated February 1, 2003...	4.25 - 6.0	1,036,693	-	128,866	907,827
Total.....		\$ <u>4,325,994</u>	\$ <u>-</u>	\$ <u>381,561</u>	\$ <u>3,944,433</u>

School Building Assistance

The City has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs. During fiscal year 2006, approximately \$18.9 million of such assistance was received. Approximately \$181 million is expected to be received in future fiscal years. Of this amount, \$59 million

represents reimbursement of long-term interest costs, and \$122 million represents reimbursement of approved construction costs. Accordingly, a \$122 million intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue for the entire grant has been recognized as revenue in the conversion to the government-wide financial statements for prior fiscal years.

Advance Refunding and Defeased Bonds

As authorized by the Commonwealth of Massachusetts, the City advance refunded \$99,860,000 of general obligation bonds through the issuance of \$98,274,000 of general obligation refunding bonds on July 7, 2006. Proceeds (net of bond premiums, issuance costs and other closing costs) were used to purchase \$107,143,336 of U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered defeased and the liabilities therefore have been removed from the financial statements. Through this advance refunding, the City has taken advantage of lower interest rates to realize a decrease in its aggregate debt service payments by approximately \$7,658,000 over the next 10 years. The City also realized an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$5,698,410. At June 30, 2006, \$99,860,000 of the bonds refunded remains outstanding and are considered defeased.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2006, the City had approximately \$52.7 million of authorized and unissued debt for three school projects.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Balance June 30, 2005	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases (Decreases)	Balance June 30, 2006	Current Amount Due
<u>Governmental Activities:</u>						
Long-Term Bonds and Notes.....	\$ 348,033,332	\$ 101,916,262	\$ (118,430,524)	\$ -	\$ 331,519,070	\$ 18,336,770
Capital Lease Obligations.....	2,338,936	-	-	(850,008)	1,488,928	571,000
Guaranteed Loans.....	4,325,994	-	(381,561)	-	3,944,433	394,262
Unamortized Bond Premium.....	4,308,985	-	-	4,476,919	8,785,904	703,616
Compensated Absences.....	19,584,650	-	-	446,775	20,031,425	5,991,221
Workers' Compensation.....	7,880,400	-	-	(1,545,405)	6,334,995	1,901,000
Court Judgements.....	8,000,000	-	-	1,609,000	9,609,000	9,609,000
Landfill Closure.....	6,754,979	-	-	(1,073,426)	5,681,553	750,000
Total governmental activity long-term liabilities.....	\$ <u>401,227,276</u>	\$ <u>101,916,262</u>	\$ <u>(118,812,085)</u>	\$ <u>3,063,855</u>	\$ <u>387,395,308</u>	\$ <u>38,256,869</u>

Compensated absences liabilities related to both governmental activities are normally paid from the funds reporting the payroll and related expenditures; namely the general fund.

NOTE 11 - LANDFILL CLOSURE AND POST CLOSURE CARE

State and federal laws and regulations require the City to construct a final capping system on the Bondi Island and Amory Street landfill sites as it stops accepting waste and to perform certain maintenance and monitoring functions at the sites after closure. The City closed various portions of the landfills beginning in 1992 and is

currently implementing a closure and post closure care plan. To date, the City has expended approximately \$5,935,000 and has reflected \$5,681,553 as the estimate of the remaining liability at June 30, 2006. This amount is based upon estimates of what it would cost the City to perform all closure and post closure care as of June 30, 2006. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

NOTE 12 – RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The City is self-insured for its health, workers’ compensation, and unemployment insurance activities. Health insurance activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. Workers’ compensation and unemployment claims are administered by the City and are funded on a pay-as-you-go basis from annual appropriations.

Liabilities are reported when it’s probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on an estimate of claims incurred but unpaid at year end. At June 30, 2006, the liability for health insurance claims totaled approximately \$5.8 million. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2004, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claim Payments		Balance at Fiscal Year-End Currently Due
Fiscal Year 2005.....	\$ 6,096,777	\$	76,779,762	\$	(74,632,334)	\$	8,244,205
Fiscal Year 2006.....	8,244,205		57,601,375		(60,037,586)		5,807,994

(b) *Workers’ Compensation*

The estimated future workers’ compensation liability is based on history and injury type. At June 30, 2006, the amount of the estimated liability for workers’ compensation claims totaled approximately \$6.3 million. Changes in the reported liability since July 1, 2004 are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claim Payments		Balance at Fiscal Year-End	Current Portion
Fiscal Year 2005.....	\$ 8,697,920	\$	2,544,870	\$	(3,362,390)	\$	7,880,400	2,365,500
Fiscal Year 2006.....	\$ 7,880,400	\$	967,673	\$	(2,513,078)	\$	6,334,995	\$ 1,901,000

The liability for unemployment claims at June 30, 2006 is based on known claims reported to the Massachusetts Division of Unemployment Assistance and the future liability at year end was estimated to be approximately \$2,255,000.

NOTE 13 – PENSION PLAN

Plan Description - The City contributes to the System, a multi-employer defined benefit pension plan administered by the Springfield Contributory Retirement System (SCRS). Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$31,030,257 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the SCRS and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the System located at 70 Tapley Street, Springfield, MA 01104.

At December 31, 2005, the System’s membership consists of the following:

Active members.....	3,632
Inactive members.....	878
Disabled members.....	423
Retirees and beneficiaries currently receiving benefits.....	<u>2,925</u>
 Total.....	 <u><u>7,858</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were \$22,003,249, \$22,410,950, and \$22,255,144, respectively, which equaled its required contribution for each fiscal year. At June 30, 2006, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.5% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System’s assets was determined using the fair value of the assets. The System’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004, was 24 years with payments increasing at 4.5% per year.

**Schedule of Funding Progress
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/05	\$ 276,286	\$ 649,023	\$ 372,737	42.6%	\$ 115,383	323.0%
1/1/04	291,017	615,605	324,588	47.3%	109,937	295.2%
1/1/03	266,402	573,138	306,736	46.5%	113,848	269.4%
1/1/02	268,001	570,958	302,957	46.9%	137,353	220.6%
1/1/01	291,264	539,502	248,238	54.0%	131,363	189.0%
1/1/00	292,172	515,716	223,544	56.7%	126,095	177.3%
1/1/99	266,826	490,551	223,725	54.4%	110,832	201.9%
1/1/98	237,262	439,441	202,179	54.0%	104,251	193.9%
1/1/94	164,561	298,111	133,550	55.2%	89,978	148.4%
1/1/93	151,322	289,821	138,499	52.2%	81,489	170.0%
1/1/92	142,305	282,780	140,475	50.3%	81,980	171.4%
1/1/90	114,439	260,553	146,114	43.9%	75,169	194.4%

Noncontributory Retirement Allowance - The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2006 totaled approximately \$463,000.

NOTE 14 – COMMITMENTS

Waste Services Agreement

In August 1998, the City of Springfield and 6 other communities entered into nearly identical "Service Agreements" with what is now eco/Springfield, LLC, a company that owns and operates 240 ton per day waste-to-energy facility located on Bondi's Island, Agawam, Massachusetts. Under the Service Agreement, the City has agreed to deliver for disposal at the facility, in each year for a period of 25 years, specified quantities of solid waste and to pay a specified monthly service fee. Waste from the City of Springfield comprises approximately 61% of the aggregate solid waste committed to the facility. The City's obligation to pay the monthly service fee is absolute and unconditional and is payable whether or not it receives solid waste disposal services from the facility. The City is entitled to certain credits for a portion of certain revenues derived from the facility by the operator. For the fiscal year ending June 30, 2006, the City's costs under the Service Agreement were \$3,732,240 and the credits received amounted to \$280,410. As part of the Agreement the City also received an additional \$1.3 million during FY2006.

NOTE 15 – CONTINGENCIES

Litigation

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the City of Springfield, including those pertaining to water and sewer breaks, motor vehicle accidents, eminent domain cases, premise liability cases, civil rights/discrimination cases, and labor and employment case matters. While the amounts claimed may be substantial, the ultimate liability cannot be determined because of the considerable

uncertainties that exist. Therefore, it is possible that there could be material negative outcomes affected by certain contingencies existing as of June 30, 2006. However, except for matters relating to the labor and employment cases discussed below, management believes that the disposition of matters that are pending or asserted will not have a materially adverse affect on the financial statements.

Wage Freeze

The City's Teachers Union, along with other Unions, have brought suit against the wage freeze imposed by the City during fiscal year 2004. In December of 2005 the court ruled in favor of the teachers.

The Police Patrol Officer's Union has also filed suit challenging the wage freeze imposed by the City and wages that were frozen under this agreement for fiscal year 2004.

The City's defense relies upon special statutes enacted by the Massachusetts Legislature to remedy the fiscal crisis in the City of Springfield as more fully described in Note 3.

During FY2006 the Finance Control Board and the City renegotiated many of the City's union agreements, including the Teachers and Police Unions. Although the cases have not been dismissed, the negotiations and settlements for the new contracts between the City and Unions included payments of approximately \$9.6 million in FY07 for amounts related to these cases. The City has recorded a liability for this amount at June 30, 2006.

Health Insurance

Several Unions have filed suit claiming that the City's changes to its health insurance plans and the re-distribution of costs to employees were illegal under state law. Again, the City's defenses rely on the special laws enacted to remedy the fiscal crisis in the City. Most of the City's unions have settled labor contracts in which they waived their claims that the health care changes were illegal.

In addition to the lawsuits described above there are numerous Arbitration cases pending that all raise, in one form or another, all claim of illegal action by the City in freezing wages or changing health care costs. The original estimated aggregate exposure to the City for the health care changes is approximately \$16 million. The estimated amounts relate to all years under the existing contracts which expire at the end of fiscal year 2006.

Management believes it will be successful in either negotiating or defending itself against significant claims relating to the legality of the health care changes.

Federal Grants

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2006, the following GASB pronouncements were implemented:

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This pronouncement has not impacted the basic financial statements.

The GASB issued Statement #44, Economic Condition Reporting: The Statistical Section. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section.

The presentation of a statistical section is not required by this pronouncement. This pronouncement has not impacted the basic financial statements.

The GASB issued Statement # 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement has not impacted the basic financial statements.

The GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement has not impacted the basic financial statements.

The GASB issued Statement #48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* which is required to be implemented in FY2008. Management has elected to implement this GASB early. The basic financial statements were not impacted by this statement.

Other Future GASB Pronouncements:

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2007. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2008. Management believes this pronouncement will require additional disclosure and will impact the basic financial statements.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year		Variance Over/(Under)
	Original Budget	Final Budget				
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 126,300,116	\$ 126,300,116	\$ 131,374,539	\$ -	\$ -	5,074,423
Tax liens.....	-	-	7,194,890	-	-	7,194,890
Motor vehicle and other excise taxes.....	7,981,624	7,981,624	9,211,096	-	-	1,229,472
Hotel/motel tax.....	900,000	900,000	934,715	-	-	34,715
Charges for services.....	400,418	400,418	495,521	-	-	95,103
Penalties and interest on taxes.....	2,804,383	2,804,383	3,537,692	-	-	733,309
Payments in lieu of taxes.....	6,286,547	6,286,547	6,363,640	-	-	77,093
Licenses and permits.....	3,294,354	3,294,354	2,953,760	-	-	(340,594)
Fines and forfeitures.....	982,673	982,673	2,187,751	-	-	1,205,078
Intergovernmental.....	285,106,812	285,106,812	286,256,259	-	-	1,149,447
Departmental and other.....	12,644,913	12,644,913	14,083,962	-	-	1,439,049
Investment income.....	350,000	350,000	3,745,453	-	-	3,395,453
Miscellaneous.....	-	-	69,200	-	-	69,200
TOTAL REVENUES.....	447,051,840	447,051,840	468,408,478	-	-	21,356,638
EXPENDITURES:						
Current:						
General government.....	22,911,912	23,153,406	21,031,333	637,315	-	1,484,758
Public safety.....	50,957,481	53,675,449	50,156,654	3,454,569	-	64,226
Education.....	278,685,271	282,970,772	261,820,228	20,791,708	-	358,836
Public works.....	18,415,398	17,825,548	17,074,385	559,332	-	191,831
Health and welfare.....	2,324,910	2,352,226	2,105,258	8,666	-	238,302
Culture and recreation.....	9,816,751	10,156,801	9,998,615	114,797	-	43,389
Finance Control Board Expenses.....	-	2,017,262	2,017,262	-	-	-
Pension benefits.....	17,633,956	17,633,956	17,479,734	-	-	154,222
Employee fringe benefits.....	4,025,050	4,552,730	1,057,887	3,388,000	-	106,843
Employee health benefits.....	26,091,139	22,900,981	18,074,765	1,950,000	-	2,876,216
Claims and judgments.....	300,000	600,000	532,192	-	-	67,808
State, county and district assessments.....	3,830,631	3,039,293	2,837,845	-	-	201,448
Debt service:						
Principal.....	19,664,493	19,404,000	18,952,085	-	-	451,915
Interest.....	16,738,876	13,790,706	13,790,706	-	-	-
TOTAL EXPENDITURES.....	471,395,868	474,073,130	436,928,949	30,904,387	-	6,239,794
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES...	(24,344,028)	(27,021,290)	31,479,529	(30,904,387)	-	27,596,432
OTHER FINANCING SOURCES (USES):						
State loan issuance.....	10,145,559	10,145,559	3,642,262	-	-	(6,503,297)
Transfers out.....	(3,312,491)	(2,652,491)	(2,342,084)	-	-	310,407
TOTAL OTHER FINANCING SOURCES (USES).....	6,833,068	7,493,068	1,300,178	-	-	(6,192,890)
NET CHANGE IN FUND BALANCE.....	(17,510,960)	(19,528,222)	32,779,707	(30,904,387)	-	21,403,542
BUDGETARY FUND BALANCE, Beginning of year.....	61,493,448	61,493,448	61,493,448	-	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 43,982,488	\$ 41,965,226	\$ 94,273,155	\$ (30,904,387)	\$ -	\$ 21,403,542

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is certified by the Massachusetts Department of Revenue. On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled “An Act Relative To The Financial Stability of Springfield.” Under Chapter 169, there is an established Finance Control Board (FCB) vested with comprehensive authority over all of the City’s finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Therefore the budget process for the City has changed from prior years. The FCB has the authority to amend the original budget throughout the fiscal year.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the FCB has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year’s original budget.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget authorized approximately \$475 million in appropriations and other amounts to be raised. The City Auditor’s office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2006, is presented below:

Net change in fund balance - budgetary basis.....	\$	32,779,707
<u>Basis of accounting differences:</u>		
Increase in revenues due to on-behalf payments.....		31,030,257
Increase in expenditures due to on-behalf payments.....		(31,030,257)
Net change in recording other accrued revenues.....		1,766,000
Net change in recording other accrued expenses.....		472,097
Net change in recording tax refunds payable.....		<u>(2,153,000)</u>
Net change in fund balance - GAAP basis.....	\$	<u>32,864,804</u>